HOUSING MARKET OUTLOOK
Calgary CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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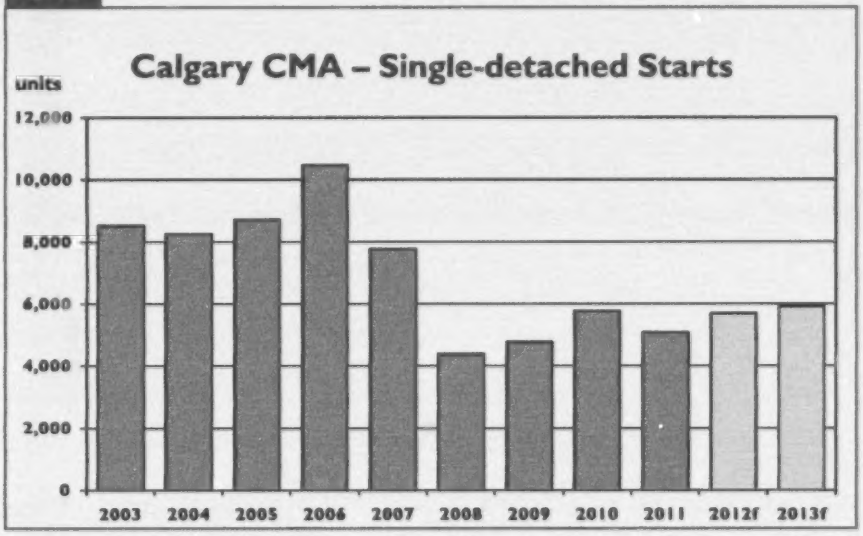
NEW HOME MARKET

Total housing starts expected to moderate in 2013

Supported by low mortgage rates, strong job growth, and a sharp increase in net migration, demand for new homes in the Calgary Census Metropolitan Area (CMA) has increased in 2012. After eight months, total starts reached 8,993 units, up 66 per cent from 5,425 in 2011. Supply in the competing resale market and inventories of new multi-family units have also declined from their previously elevated levels, further contributing to the pace of construction. Under these conditions, total housing starts in 2012 are on pace to increase 33 per cent to 12,400 units.

Figure 1



Source: CMHC, CMHC Forecast (f)

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[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 17, 2012.

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Although economic growth next year will continue to support demand, we expect a slight moderation in job creation and net migration. At the same time, multi-family builders will reduce production to adjust to the higher number of multi-family units under construction and potential inventory additions. As a result, CMHC is forecasting total housing starts to decline four per cent year-over-year, reaching 11,900 units in 2013.

Single-detached starts to increase for the second consecutive year

Single-detached home builders have been busier this year, benefitting from stronger economic conditions. To the end of August, single-detached starts increased 18 per cent to 3,941 units, up from 3,350 units during the same period in 2011. As indicated earlier, a variety of factors have supported new home construction. There has been less competition from the resale market in 2012 with active listings down from the previous year. Meanwhile, mortgage rates have remained relatively low, average weekly earnings have risen, and employment is on track for the strongest performance since 2008. Single-detached starts are forecast to finish 2012 with 5,700 units, up 12 per cent from 2011 levels. Demand for new homes will continue to improve in 2013 as prospective buyers and migrants take advantage of Calgary's labour market, and some existing home owners capitalize on their equity gains and move-up. In 2013, CMHC forecasts single-detached starts to increase four per cent to 5,900 units.

In the first eight months of 2012, the inventory of complete and unabsorbed homes averaged 463 units, up 21 per cent from 2011 but down from the 10-year average of 553 units. The increase in inventories was mainly due to an increase in the number of spec units. The number of show homes has not substantially changed throughout the year. Show homes ranged from 285 to 301 units per month from January to August, as few new subdivisions have been initiated this year. With an up-tick in single-detached housing starts, the number of units under construction has increased to 3,162 units in August, up 11 per cent from 2,838 units in 2011. Although inventories may experience some modest upward pressure next year, it is not expected to inhibit and reverse the trend of new home construction.

New home prices expected to post modest gains in 2013

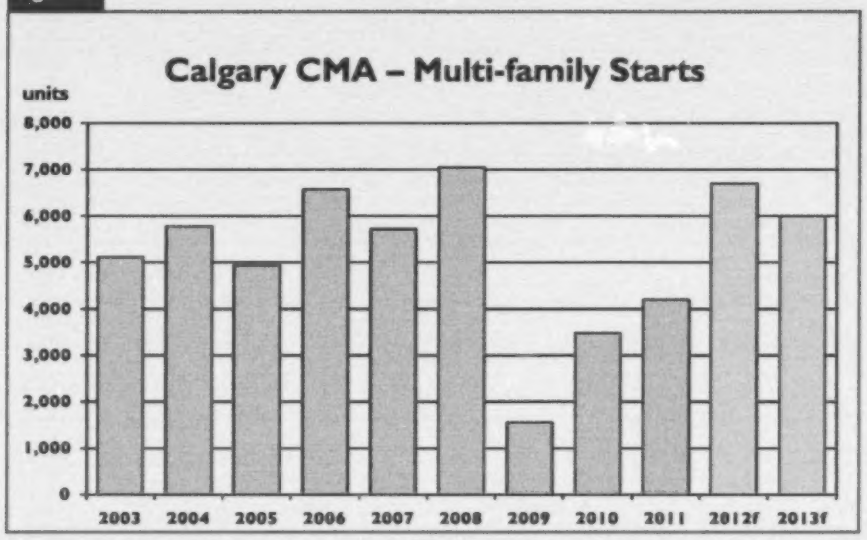
New home price pressures in the Calgary CMA have started to increase in 2012, following a year when they were relatively flat. The rise in price pressure has mostly been due to the house component, but the land component is also up from 2011 levels. To the end of July, Statistics Canada's New House Price Index (NHPI) for Calgary was up one per cent from the previous year. The NHPI measures the change in contractors selling prices of new residential homes where the specifications remain the same between two consecutive periods. The rise in construction costs has also contributed to higher new home prices. By the end of 2012, the NHPI is forecast to be up by 1.5 per cent from 2011. In 2013, the NHPI is expected to increase another two per cent.

After eight months, the average absorbed price for a single-detached home was $569,848, up 4.6 per cent from $544,587 in 2011. The gain in the average price is partly due to the increase in the share of higher priced homes absorbed. To the end of August, 33 per cent of absorptions were priced $550,000 and higher, up from a 29 per cent share in 2011. The single-detached absorbed price is forecast to end the year up 4.1 per cent, averaging $570,000 in 2012. The upward pressure on prices is anticipated to remain steady as prospective buyers continue to look to the new home market and as builders face rising costs. The absorbed price in 2013 is forecast to average $583,000, up 2.3 per cent from 2011.

Multi-family starts forecast to moderate in 2013

The upward trend in multi-family production which gained momentum in the second half of 2011 has continued this year. To the end of August, multi-family starts totalled 5,052 units compared to 2,075 units during the same period in 2011. The increase is largely due to more apartment starts. However, new construction of semi-detached and row units has also increased. By year-end, multi-family starts are forecast to reach 6,700 units. With the start of many new multi-family projects this year, the number of units under construction has also increased. When completed, some of these units will represent additions to inventory.

Figure 2



Source: CMHC, CMHC Forecast (f)

This will inhibit construction in 2013, as some multi-family builders hold back production to contend with these heightened supply levels. CMHC is forecasting multi-family starts to remain above historical norms in 2013, but to moderate 10 per cent to 6,000 units.

Multi-family inventories in August were at 403 units, down 38 per cent from the previous year and the lowest level since August 2009. The decline was mainly due to fewer apartment units as demand from homebuyers lowered inventories. In the first eight months, more than 80 per cent of apartment units were absorbed at completion while units absorbed from the previous month's inventory was also higher compared to a year earlier. As inventory levels have moved lower, this has provided builders an opportunity to satisfy demand by bringing new product to the market. Although multi-family inventories have declined from a year earlier, they are expected to gradually increase next year given the volume of new units under construction.

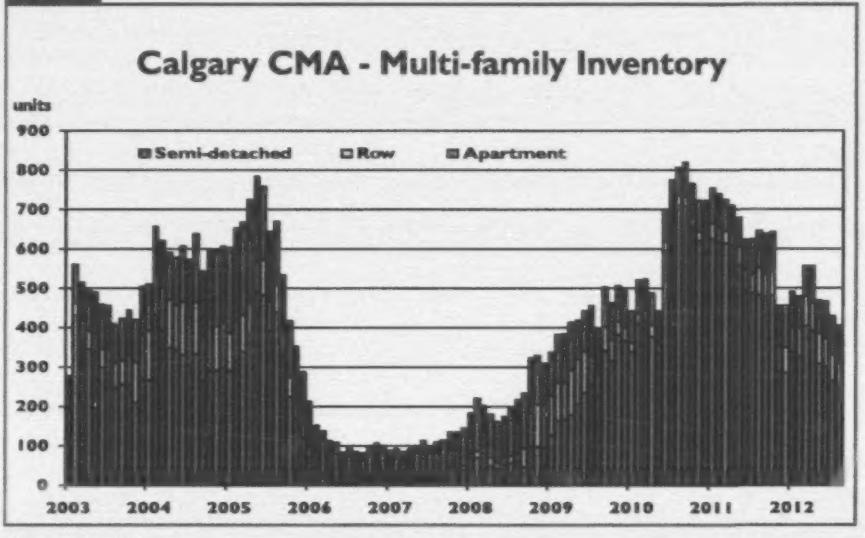
There were 7,375 multi-family units under construction in August, an increase of 50 per cent from the previous year. All multi-family dwelling types contributed to the rise. Semi-detached and row units under construction were up 15 and 72 per cent, respectively. However, the largest increase to multi-family inventory is expected to come from the apartment segment, as they represent the majority of units underway. Of the 7,375 multi-family units under construction in August, 5,133 were apartments, up from 3,405 in August 2011.

RESALE MARKET

Resale market balance improved

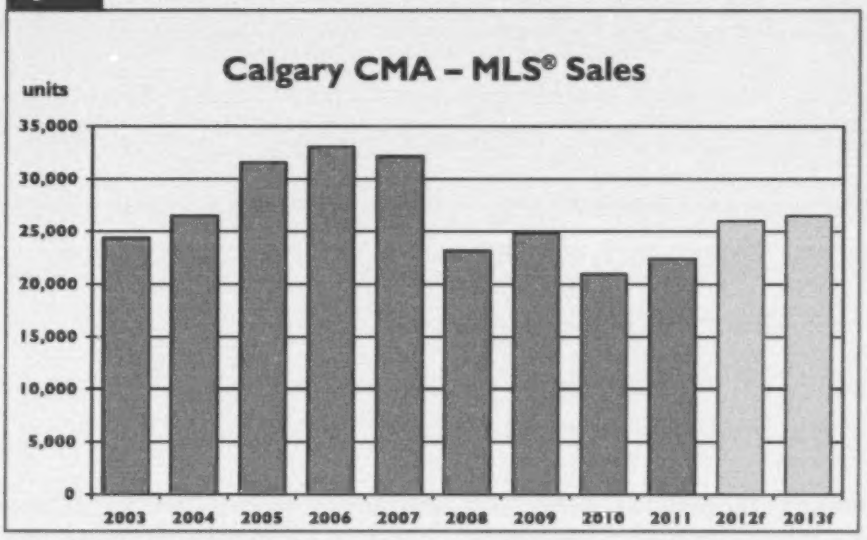
Demand for homes in Calgary's existing home market has been impressive thus far in 2012. To the end of August, MLS® residential sales totalled 19,302 units, up 20 per cent from 16,107 units in 2011. Labour market conditions in Calgary have been favourable, attracting migrants from other regions and increasing housing demand. The decline in the apartment vacancy rate and increase in average rents, coupled with low mortgage rates, has also given some renters an incentive to purchase a home. Sales in Calgary are forecast to increase 16 per cent in 2012 to 26,000 units, the highest level since 2007. In 2013, modestly higher

Figure 3



Source: CMHC

Figure 4



Source: CREA, CMHC Forecast (f)

mortgage rates, combined with a slower pace of job creation and net migration, will moderate sales growth. MLS® residential sales are anticipated to rise two per cent to 26,500 units.

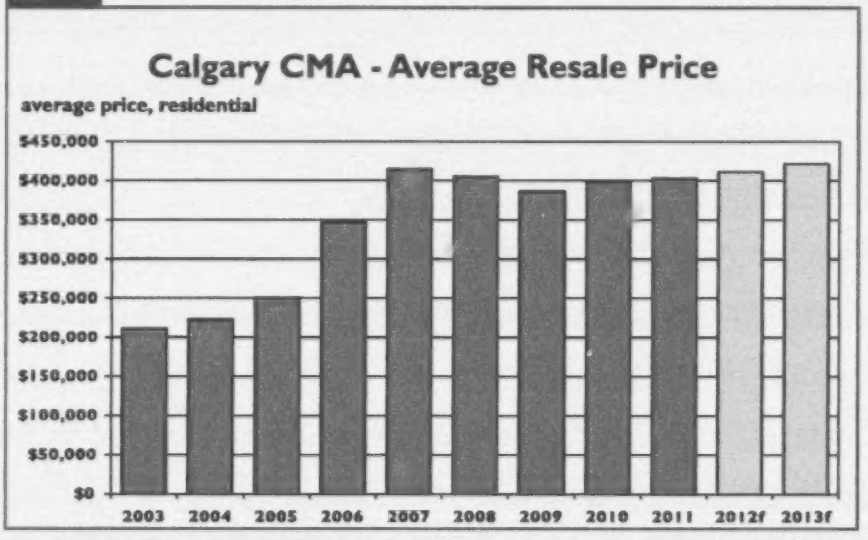
Market balance in Calgary has improved in 2012. The supply in the resale market has declined from the previous year while MLS® sales have increased. To the end of August, new listings had decreased by 0.9 per cent from 2011 to 32,434 units, while sales were up 20 per cent during the same period. Due to fewer active listings, some buyers looked to the new home market to meet their needs. This year, prospective buyers had less selection and took less time to make their purchasing decision as the days-on-market for some segments moved lower. Overall, the sales-to-active listings ratio rose from buyers' level in 2011 to balanced territory in 2012, resulting in more pressure on prices.

Average resale price forecast to rise in 2013

The average price in the Calgary region has been rising in 2012 as the market moved from buyers' to balanced conditions. To the end of August, the average price was $411,960, up two per cent from the previous year. The rise in prices was stronger within the City of Calgary where the sales-to-active listings ratio was higher compared to some of the smaller centres outside city limits. The average price for the Calgary region is forecast to increase two per cent from $402,851 in 2011 to $411,000 in 2012. Balanced market conditions are expected to persist for the remainder of this year and into 2013. The average price in 2013 is expected to reach a record of $422,000, up almost three per cent from a year earlier.

Price growth has also been supported by an increase in the proportion of sales in the higher-price ranges. Rising wages and employment growth in many of the higher-paying industries such as the energy industry as well as equity gains has provided many buyers an opportunity to spend more on a home. After eight months, the proportion of sales within the City of Calgary that sold for more than $500,000 was 25 per cent, up from a 22 per cent share in 2011. In addition, the number of homes that sold for $1,000,000 and higher increased 19 per cent from the previous year.

Figure 5



Source: CREA, CMHC Forecast (f)

RENTAL MARKET

Lower vacancies move average rents higher

Demand for rental accommodations in Calgary is expected to improve over the next two years. After declining to 1.9 per cent last year, the apartment vacancy rate in October 2012 is forecast to decrease to 1.7 per cent. Employment opportunities in Calgary continue to draw new migrants to the region, who typically have a high propensity to rent upon arrival. Landlords and property owners will continue to see sustained interest in their rental units in 2013. The vacancy rate in October 2013 is forecast to remain near current levels, averaging 1.5 per cent. While vacancies in the purpose-built market will continue to decline, the number of units in the secondary rental market has grown over the years and will be an option for tenants where the vacancy rate is higher.

With the vacancy rate in Calgary declining for the third consecutive year, incentives are expected to disappear and average rents will move higher. The average two-bedroom rent is expected to reach $1,150 in October 2012, up from $1,084 in October 2011. The upward pressure on average rents will extend into 2013 as a result of low vacancies. Rental rate increases will also help landlords offset any rising maintenance costs. With the average rent moving higher and mortgage rates relative low, some renters may take the opportunity to move into homeownership. However, this is not expected to push the vacancy rate higher as other renters will take their place. CMHC is forecasting the two-bedroom rent in October 2013 to average $1,200 per month.

Figure 6

Source: CMHC, CMHC Forecast (f)

Historically, there have not been many rental units started for the purpose-built market in the Calgary CMA. Many of the rental units that have been started were intended for the social housing market. However, to the end of August 214 purpose-built rental apartments have broken ground, up from only four units in 2011. Some builders have found an opportunity to start new rental units in these improved economic conditions. However, the overall supply of purpose-built rental units this year is not expected to increase. In the first eight months, there have not been any rental completions and as of August, there were over 200 units underway. Although these units will represent future supply when completed, large net additions are not anticipated as condominium conversions will also remove some purpose-built rental units from the market.

ECONOMIC OVERVIEW

Employment growth will continue to support housing demand

Demand for labour in the Calgary CMA has been strong in 2012. Employment growth in the beginning of 2012 was well over four per cent, but has since eased. Average employment in August was up 2.5 per cent from 2011, representing an additional 18,000 jobs from the previous year. Most of the jobs created have been in full-time positions, which is a positive sign for housing demand.

CMHC is forecasting average employment to increase 3.2 per cent in 2012. The price for oil is expected to support investment in the energy sector which is a main driver for economic growth and job creation. In

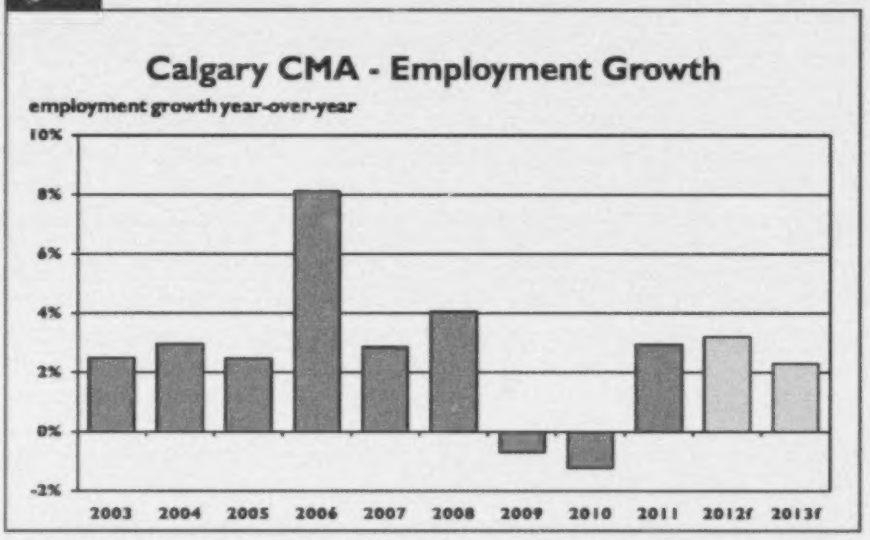
addition to those in the energy sector, many other companies and industries in Calgary will also benefit. With an unemployment rate below five per cent, some companies will have difficulty meeting all their labour requirements. As a result, employment growth is forecast to moderate to 2.3 per cent in 2013.

Strong employment gains have helped the unemployment rate decline to 4.9 per cent in August, down from 6.3 per cent a year earlier. For the balance of the year, the unemployment rate is expected to remain near its current level. Moving forward, the pace of job growth is expected to slightly surpass that of the labour force. As a result, after averaging 4.8 per cent in 2012, the unemployment rate is expected to moderate to 4.6 per cent in 2013.

A rise in earnings for many prospective buyers has helped increase sales for new and existing homes. Average earnings in August rose over six per cent from the previous year, reaching $1,065 per week. The higher demand for labour in an environment where the unemployment rate has declined is putting upward pressure on earnings. The average increase in earnings is also due to the types of jobs created, such as those in the goods producing sector, which tends to pay more compared to other sectors. As well, earnings are rising as part-time jobs are being converted to full-time positions.

The number of people moving to Calgary has been a primary driver for the increase in housing demand in the existing and new home markets as well as the rental market. People have been drawn to the favourable labour market and the lifestyle opportunities that are available in Calgary. The seasonally adjusted unemployment rate for Calgary was more than two percentage points lower than Canada as a whole, reinforcing its magnetic draw to the region. Net migration is forecast to increase to 20,000 people in 2012, up from 11,220 in 2011. Next year, the labour market in Calgary is expected to outperform many other regions in Canada. However, as economic conditions improve in other provinces and countries, the pace of migration to Calgary will moderate. As a result, net migration is forecast to decline 10 per cent to 18,000 people in 2013.

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

MORTGAGE RATE OUTLOOK

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Calgary CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	24,880	20,996	22,466	26,000	15.7	26,500	1.9
MLS® New Listings	41,640	46,278	43,781	43,200	-1.3	42,500	-1.6
MLS® Average Price ($)	385,882	398,764	402,851	411,000	2.0	422,000	2.7
New Home Market							
Starts:							
Single-Detached	4,775	5,782	5,084	5,700	12.1	5,900	3.5
Multiples	1,543	3,480	4,208	6,700	59.2	6,000	-10.4
Starts - Total	6,318	9,262	9,292	12,400	33.4	11,900	-4.0
Average Price ($):							
Single-Detached	547,795	514,466	547,670	570,000	4.1	583,000	2.3
Median Price ($):							
Single-Detached	450,302	435,251	457,271	467,000	2.1	476,000	1.9
New Housing Price Index (% chg.)	-6.7	1.7	-0.1	1.5	-	2.0	-
Rental Market							
October Vacancy Rate (%)	5.3	3.6	1.9	1.7	-	1.5	-
Two-bedroom Average Rent (October) ($)	1,099	1,069	1,084	1,150	-	1,200	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	713,600	704,800	725,500	748,700	3.2	765,900	2.3
Employment Growth (%)	-0.7	-1.2	2.9	3.2	-	2.3	-
Unemployment rate (%)	6.7	6.8	5.8	4.8	-	4.6	-
Net Migration	22,334	9,209	11,220	20,000	78.3	18,000	-10.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
The forecasts included in this document are based on information available as of October 17, 2012.

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